

Special Payments After Retirement

Bonuses, Vacation Pay, Commissions, Sick Pay, Insurance Commissions, Carryover Crops, And Other Special Payments

What Are “Special Payments”?

After you retire, you may receive payments for work you did before you started getting Social Security benefits. Usually, those payments will not be considered as earnings that affect your Social Security benefit if we know they compensate for work done before you retired. This factsheet describes some of the more common types of “special payments,” helps you to decide if you received one and tells you what steps to take if you did.

What Are Earnings Limits?

Generally, if you are a Social Security beneficiary less than your full retirement age who works, your benefits will be reduced if they exceed the limit. Your “full retirement age” depends on your date of birth. In 2003, the full retirement age is 65 and 2 months. However, this will gradually increase each year until it reaches 67 for people born in 1960 or later.

If you have not yet attained your full retirement age, your earnings limit is \$11,520 in 2003.

If you attain your full retirement age in 2003, your earnings limit is \$30,720, up from \$30,000 in 2002. However the earnings limit does not apply during and after the month you reach your full retirement age.

What Qualifies As A Special Payment?

If you worked for wages, income received after retirement counts as a special payment if the last thing you did to earn the payment was completed before you stopped working for your employer.

Some special payments to employees include: bonuses, accumulated vacation or sick pay, severance pay, back pay, standby pay, sales commissions, retirement payments

or deferred compensation reported on a W-2 form for one year, but earned in a previous year. These amounts **may** be shown on your W-2 in the box labeled “Nonqualified Plan.”

If you were self-employed, net income received **after the first year you retire** counts as a special payment if you performed the services to earn the payment before you were entitled to receive Social Security benefits. “Services” are any regular work or other significant activity you do for your business.

Some special payments to self-employed people include income derived by an owner of a business who does not perform significant services in that business, farm agricultural program payments or income from carryover crops.

If You Think You Received A Special Payment

If you get Social Security and your total yearly earnings exceed the limit and these earnings include a special payment, you should contact Social Security. Tell us you think you received a special payment. If we agree, we will not count the amount of the special payment as part of your total earnings for the year.

Example Of A Special Payment

This example shows how a special payment is treated under Social Security rules.

Mr. DeSilva retired at age 62 from his job at Crown Jewelry Company in November 2001 and began to receive Social Security benefits. In January 2002, Mr. DeSilva received a check from his employer for \$17,000 for vacation time he earned while he worked. Since this amount is over the earnings limit for 2002 (\$11,280), Mr. DeSilva should contact Social Security and explain that the payment is not earnings for work done in 2002, but vacation pay he accumulated before he retired.

Social Security will consider the amount a special payment and will not count it toward the earnings limit for 2002.

Insurance Salespeople And Farmers

Two specific occupational groups commonly receive earnings that qualify as special payments:

- insurance salespeople who receive renewal or repeat commissions; and
- farmers who receive income from carryover crops.

Insurance Salespeople

Many insurance salespeople continue to receive commissions after the year they retire for policies they sold prior to retirement. The example below shows how this income is treated.

Mr. Hirisk worked as an employee for Safety Net Insurance Company. In 2001, he retired at age 62 and began to collect Social Security benefits. In 2002, he received \$8,000 in renewal commissions on life insurance policies he sold before retirement. In addition, he continued to work part-time in 2002 as a self-employed contractor for another insurance company. He received \$12,000 in net commissions from new policies he sold in 2002 working part time. Because his earnings include a special payment and exceed \$11,280 (the earnings limit for 2002), he should contact Social Security. The \$8,000 in commissions will not count toward the earnings limit for 2002, because Mr. Hirisk did the work to earn that amount before he retired. However, \$12,000 will count as earnings for 2002 because Mr. Hirisk sold these policies after he began receiving Social Security benefits.

Farmers

Many farmers harvest and store crops in one year to be sold in another year. The following example shows how income received after retirement for carryover crops is treated.

Ms. Barnes retired from full-time farming in October 2001 at age 62 and began to receive Social Security benefits that month. In 2002, she worked part-time on her farm and netted \$7,000. In addition, in 2002, she sold some grain she had harvested and stored before October 2001, netting \$10,000. Since her total earnings were over \$11,280 (the limit for 2002) and include a special payment, she should contact Social Security. The \$10,000 will be considered a special payment and will not count as earnings for 2002. This is because Ms. Barnes did the work necessary to earn the \$10,000 before she began to get Social Security benefits, and then received the \$10,000 in a year after she became entitled to Social Security.

For More Information

Other publications that may help you are *How Work Affects Your Benefits* (Publication No. 05-10069) and *If You Are Self-Employed* (Publication No. 05-10022).

Check our website at www.ssa.gov for answers to many questions and for special services. You can download needed forms and publications, use our benefit planners for online financial planning, or even apply for retirement benefits online. You also may call us toll-free at **1-800-772-1213**. We can answer specific questions by phone from 7 a.m. until 7 p.m. on business days and provide information by automated phone service 24 hours a day. If you are deaf or hard of hearing, you may call our TTY number, 1-800-325-0778 between 7 a.m. and 7 p.m. on business days.

We treat all calls confidentially—whether they're made to our toll-free numbers or to one of our local offices. We also want to ensure that you receive accurate and courteous service. That is why we have a second Social Security representative monitor some incoming and outgoing telephone calls.

Social Security Administration

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